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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, November 7, 2000

APPLICATION OF

CASE NO. PUA000068

NORTHERN VIRGINIA ELECTRIC COOPERATIVE

For authorization under Chapter 4 of Title 56 of
the Code of Virginia for affiliate transactions

ORDER GRANTING AUTHORITY

On September 1, 2000, Northern Virginia Electric Cooperative (“NOVEC,” “Applicant”) filed an application with the Commission under the Public Utilities Affiliates Act. In the application, NOVEC requested authority to enter into a promissory note with its subsidiary, NOVASTAR, Inc. (“NOVASTAR”), to broaden the approved range of services that can be provided through NOVASTAR so that it can provide any lawful business permitted of corporations doing business in Virginia. It also requested authority to receive services from NOVASTAR and to broaden the language in the Cost Allocation and Service Agreement (“the Agreement”) approved by the Commission in Case No. PUA970012.

On September 19, 2000, NOVEC filed an amendment to the application filed on September 1, 2000. In the amendment, Applicant requested additional authority to include authority to transfer certain computer software, namely, Enermetrix, to its affiliate, America’s Energy Alliance, Inc. (“AEA”), and to transfer all remaining natural gas customers/accounts from NOVEC’s America’s Energy Division to AEA.

By order dated October 27, 2000, the Commission extending the time for review of the above-referenced application from October 31, 2000, through November 30, 2000.

In Case No. PUA970012, NOVEC was granted authority to provide goods and services to NOVASTAR at the higher of cost or the market price. In that order, the Commission limited the types of businesses that NOVASTAR could enter to obtain goods and services from NOVEC pursuant to the Cost Allocation and Service Agreement (“the Agreement”).¹ NOVEC requests authority in this application to broaden the approved range of services that can be provided through NOVASTAR so that it can provide any lawful business permitted for corporations doing business in Virginia without the limitations contained in the Commission’s December 16, 1997, Order.

In the application, NOVEC also requests authority to enter into a promissory note with NOVASTAR. The promissory note will be made with excess cash on hand so NOVEC will not be incurring any obligations in order to obtain the proceeds.

The authority granted in the Commission’s December 16, 1997, Order granted authority for NOVEC to provide services to NOVASTAR subject to certain restrictions. The authority only included NOVEC’s provision of goods and services to NOVASTAR without any authority for NOVEC to obtain goods and services from NOVASTAR. No other affiliates were included. NOVEC requests authority to obtain certain goods and services as needed from NOVASTAR and requests authority to include “other Affiliates” in the Agreement. The request to include “other Affiliates” contemplates inclusion of a subsidiary of NOVASTAR, AEA, and the

¹ The Commission’s Order dated December 16, 1997, in Case No. PUA970012 stated that “The authority granted herein for services to be provided to NOVASTAR are for the support of NOVASTAR’s provision of satellite television services and appliance warranty services only. Any other services to be provided by NOVASTAR are excluded.”

possibility of NOVEC obtaining services from AEA. AEA has an application pending before the Commission to become a competitive energy supplier.

NOVEC represents that goods and services obtained from NOVASTAR and the other Affiliates will be priced in accordance with either market prices driven by the formal vendor documentation required by NOVEC's solicitation for goods or services or at charges that are less than the cost the parent has determined that it could provide the goods or services for itself. No other changes in the Agreement are requested.

In the amendment to the application, NOVEC requests authority to transfer to AEA the license to the Enermetrix software and a Dell server on which the Enermetrix software is hosted. As stated by Applicant, the Enermetrix software license provides technology for creation of an online energy auction. AEA will use this online energy auction for purposes of fostering a competitive energy marketplace in Virginia. NOVEC states that it purchased the software in the spring of 2000. It has never been installed on NOVEC's system or used by NOVEC, and there are no plans to use it in the future.

Finally, NOVEC requests authority to transfer to AEA the natural gas accounts accumulated by America's Energy, a division of NOVEC. NOVEC states that it has begun shutting down the internal division and has created a new affiliate, AEA. The existing natural gas accounts were valued, and AEA is to pay NOVEC the current value for the transfer. NOVEC states that the valuation of the accounts was done in accordance with traditional valuation practices used in the industry and represents that the valuation will have no impact upon the just and reasonable rates in place and approved by the Commission.

THE COMMISSION, upon consideration of the application and amendments filed thereto and representations of Applicant and having been advised by its Staff, is of the opinion

and finds that the above-described changes to the Cost Allocation and Service Agreement from that approved by the Commission in Case No. PUA970012 and the proposed transfers by lease of Enermetrix software and Dell server as well as the transfer of NOVEC's natural gas customers/accounts are in the public interest. The agreement to enter into the promissory note with NOVASTAR is also in the public interest. All such agreements should be approved provided that goods and services received by NOVEC from NOVASTAR and other Affiliates be priced at the lower of cost or market and services provided by NOVEC to NOVASTAR and other Affiliates should be priced at the higher of cost or market. NOVEC should bear the burden of proving, in connection with any rate proceeding, that the above-described pricing was followed.

Accordingly,

IT IS ORDERED THAT:

- 1) Pursuant to § 56-77 of the Code of Virginia, NOVEC is hereby granted authority to enter into a promissory note with NOVASTAR as described herein.
- 2) Pursuant to § 56-77 of the Code of Virginia, NOVEC is hereby granted authority to broaden the approved range of services that can be provided through NOVASTAR pursuant to the Cost Allocation and Service Agreement so that it can provide any lawful business permitted corporations doing business in the Commonwealth of Virginia.
- 3) Pursuant to § 56-77 of the Code of Virginia, NOVEC is hereby granted authority to receive services from NOVASTAR and to broaden the language in the Agreement to include NOVASTAR and its Affiliates so that NOVEC could provide to and receive from AEA goods and services as needed. However, goods

and services provided by NOVEC to NOVASTAR and other Affiliates shall be priced at the higher of cost or market, and goods and services received by NOVEC from NOVASTAR and other Affiliates shall be priced at the lower of cost or market.

- 4) Pursuant to § 56-77 of the Code of Virginia, NOVEC is hereby granted authority to transfer certain computer software, namely, Enermetrix, to its affiliate, AEA, under the terms and conditions and for the purposes described herein as long as such transfer is made at the higher of cost or market.
- 5) Pursuant to § 56-77 of the Code of Virginia, NOVEC is hereby granted authority to transfer all remaining natural gas customers/accounts from NOVEC's America's Energy Division to AEA under the terms and conditions and for the purposes described herein provided that such transfer is priced at the higher of cost or market.
- 6) Should there be any changes in the terms and conditions of the Cost Allocation and Service Agreement from those contained herein, Commission approval shall be required for such changes.
- 7) NOVEC shall bear the burden of proving in any rate proceeding that it paid the lower of cost or market for goods or services received from affiliates and that it received the higher of cost or market for goods or services provided to Affiliates pursuant to the Agreement.
- 8) The approval granted herein shall not preclude the Commission from exercising the provisions of §§ 56-78 and 56-80 of the Code of Virginia hereafter.

- 9) The Commission reserves the authority to examine the books and records of any affiliate of NOVEC in connection with the authority granted herein whether or not the Commission regulates such affiliate.
- 10) NOVEC shall continue to include the Agreement and shall include the additional affiliate transactions authorized herein in its Annual Report of Affiliate Transactions submitted to the Commission's Director of Public Utility Accounting.
- 11) There appearing nothing further to be done in this matter, it hereby is, dismissed.